



Washington State Auditor's Office

Independence • Respect • Integrity

Accountability Audit Report

City of Montesano

Grays Harbor County

For the period January 1, 2014 through December 31, 2014

Published October 29, 2015

Report No. 1015354





Washington State Auditor's Office

October 29, 2015

Mayor and City Council
City of Montesano
Montesano, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for City operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the City's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in blue ink, reading "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM
ACTING STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Audit Summary	4
Status Of Prior Audit Findings	5
Related Reports	7
Information About The City	8
About The State Auditor’s Office	9

AUDIT SUMMARY

Results in brief

In most areas we audited, City operations complied with applicable requirements and provided adequate safeguarding of public resources. The City also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we noted certain matters that we communicated to City management in a letter dated October 13, 2015, related to cost allocation and ambulance billing. We appreciate the City's commitment to resolving those matters.

About the audit

This report contains the results of our independent accountability audit of the City of Montesano from January 1, 2014 through December 31, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the City's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Open public meetings
- Key system controls
- General revenue and expenditures
- Cost allocation/interfund transactions
- Citizen concerns
- Payroll
- Financial condition

STATUS OF PRIOR AUDIT FINDINGS

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the City of Montesano. The State Auditor's Office has reviewed the status as presented by the City.

Audit Period: January 1, 2013 through December 31, 2013	Report Ref. No: 1012521	Finding Ref. No: 1
Finding Caption: The City of Montesano did not have adequate documentation to support its allocation of shared costs to its restricted Water Fund.		
Background: Cities often charge costs incurred by their central service functions, such as general administration, human resources, payroll and purchasing to the funds that benefit from the services. They should charge costs in proportion to the benefit received. The City has a responsibility to adopt a fair and equitable method of distributing shared costs among departments and funds. Additionally, state law prohibits resources restricted for specific uses, such as utilities that collect usage-based fees from citizens, to benefit or subsidize other functions of government. We have focused audit efforts around the state to ensure allocations are properly supported. During the audit, we reviewed allocations for five employees whose salaries totaled \$472,630. The restricted Water Fund was charged \$277,512 or approximately 58 percent of these salaries. We determined the City did not have time studies for two of the employees and the time studies submitted for two other employees did not include sufficient detail to support the charges to the Water Fund. As a result, allocations of \$211,370 were unsupported. We also determined the Water Fund over-charged \$22,737 for the one employee who did perform time studies. Instead of allocating 52.5 percent of the employee's salary, the City allocated 80 percent. The City also built a new shop to house the street and water department vehicles and employees. The entire \$1.7 million cost of the building was paid for by the Water Fund. Because street operations are part of general government services, the General Fund should have paid for its proportional share of the building's costs. The City stated it donated land from the General Fund for its share of the project. However, at the time of the audit, the City was unable to provide documentation to support that the General Fund paid its proportional share of the building's costs.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> No Corrective Action Taken <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <u>Cost Allocations</u> <i>The City carefully considered the audit finding from the previous year concerning the description of condition provided by the auditors. Because of the late date of the previous audit we did not have the Central Services Cost Allocation Plan in place until the current year. The Council will receive</i>		

this plan with signatures in place when they receive the proposed budget document. This plan will ensure that the council can review documents to support the allocation of personnel services and other shared costs. All applicable positions have been analyzed monthly during the 2014-2015 YTD. During the budget process we have allocated accruals with the actual hours to represent a more accurate division. In addition, as requested by the auditors we have repaid the \$22,737 back to the Water Utility Department from the General Fund. We believe that we have fully corrected this issue.

City Shop

Upon the auditors recommendation the Public Works Director and the Community Development Director along with material provided by the contractor did an assessment of the building footprint to evaluate the usage for each department. As part of the construction the General Fund provided the land for the Public Works Building. The General Fund also provided the proceeds of the previous public works building and city shop. The \$1,000,000 bond was repaid to Grays Harbor PUD using some of the funds generated from the sale. The total donation earmarked from the General Fund to date is \$300,000.00. We believe that all funds have participated fairly in the division of this asset.

RELATED REPORTS

Financial

Our opinion on the City's financial statements is provided in a separate report issued in October 2015, which includes the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Montesano was incorporated in 1883 and serves more than 4,000 citizens in Grays Harbor County.

A mayor-council form of government administers the City with an elected, seven-member City Council and an independently elected Mayor. The City operated on an \$11 million annual budget and has approximately 32 full-time employees.

The City provides a wide range of services including public safety, street improvements, parks and recreation, forest management and general administrative services. Additionally, the City provides water and sewer.

Contact information related to this report	
Address:	City of Montesano 112 Main Street Montesano, WA 98563
Contact:	Kristy Powell, City Administrator/Finance Director
Telephone:	(360) 249-3021
Website:	www.montesano.us

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Montesano at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov